In This Issue . . .

Government Payments To Farmers. . . Corn Outlook. . . Ag Exports. . . Food Prices. . . Taiwan's Hog Industry. . .

Corn Production & Use to Hit Record Highs

Record U.S. corn production is forecast for 2000, with higher acreage planted and record yields. Anticipated record-high domestic demand and bright prospects for exports will limit the stocks gain. Nevertheless, ending stocks are expected to be the highest since 1987/88, and market prices will remain weak. Expanding world corn trade (to the highest level in over a decade), combined with low U.S. corn prices and reduced competition from China and Eastern Europe, is expected to result in a sharp increase in U.S. share of world exports.

U.S. Ag Exports to Edge Higher in Fiscal 2001

The value of U.S. agricultural exports will climb in fiscal 2001, for the second year in a row, according to USDA projections. Exports should increase to $51.5 billion—2 percent over revised estimates for fiscal 2000—marking a continuing upswing since the Asian financial setbacks of 1997–99. A rise in volume (quantity) accounts for much of this gain, as large global supplies of many commodities are expected to keep prices relatively low. Exports of high-value products (HVP's)—that is, all agricultural exports other than bulk commodities—are projected up just 0.6 percent to $33 billion, reflecting projected gains in horticultural products and soybean oil. Increased demand for U.S. agricultural exports reflects favorable economic conditions worldwide. Also, the dollar is expected to depreciate against the euro, yen, and Canadian dollar, making U.S. exports more competitive in developed country markets.

Food Price Inflation to Remain Low in 2000 & 2001

Consumers continue to see only modest increases in food prices, with the Consumer Price Index (CPI) for all food forecast to rise 2.3 percent in 2000 and 2-2.5 percent in 2001. This follows increases of 2.2 percent in 1998 and 2.1 percent in 1999. In 2000, generally lower prices for fruits, due in part to a rebound in citrus output, are offsetting higher prices for red meat that result from strong demand. Modest increases are forecast for most food categories next year.

Farm Program Benefits Affect Planting Decisions & Ag Markets

Direct government payments*,* topping $20 billion in 1999 and forecast even higher in 2000, have boosted farm income during the last 2 years, but effects on resource allocation and agricultural markets vary across programs. USDA's Economic Research Service analyzed four farm programs—production flexibility contracts, crop insurance, marketing loans, and disaster assistance—to explore effects on agricultural markets of program-related economic incentives that may alter production decisions. Among the findings was that production flexibility contract payments create a small incentive to increase aggregate production, with the mix of crops planted based on market signals. Crop insurance and marketing loans create direct incentives to expand production of specific commodities by increasing expected returns. Ad hoc disaster assistance may have some influence on production decisions if producers have expectations of future assistance based on past government actions.

Farm Payments & the Rural Economy

Government support for the farm sector is frequently linked by advocates of farm program payments to survival of rural communities. In the past decade, about 8 of every 10 dollars in Federal direct farm payments went to farms in nonmetropolitan (nonmetro) counties. The payments smooth farm income fluctuations resulting from swings in commodity prices, and inject cash that supports other rural businesses. But farm program payments are a small fraction of what the Federal government spends in rural areas. In 1998, per capita Federal spending in nonmetro counties totaled $4,725, including only $182 for farm payments. Nevertheless, government payments may play a significant role in some local economies, particularly the 556 nonmetro counties identified as "farm-dependent" because of the importance of farm income there. In farm-dependent counties, farm payments were much higher—$937 per capita—but still less than one-fifth of $5,369 in per capita Federal spending.

Taiwan's Hog Industry—3 Years After Disease Outbreak

The highly contagious foot-and-mouth disease (FMD) that hit Taiwan's densely packed hog farms in 1997 is under control. The outbreak ravaged Taiwan's hog industry, eliminating Japan's single largest source of imported pork, and creating a marketing opportunity for other exporters, including the U.S. Taiwan's authorities have taken advantage of the FMD crisis to address generally the problems of hog farming on the island. Even before the FMD outbreak, official policy aimed to reduce the number of hogs, because raising hogs posed a serious environmental hazard to this land of limited water resources and more than 20 million people. Taiwan's hog farmers are not expected to reclaim their lucrative pork export market in the near future, mainly because Taiwan remains a listed FMD-infected area. Another fundamental problem for Taiwan's hog industry is the high cost of production—in part because all feed ingredients must be imported—that makes Taiwan vulnerable to import competition.